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211444Z Aug 03

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SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
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E. O. 12958: N/A

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SUBJECT: Scapegoating of Reserve Bank Intensifies

1. Summary: Although the Government's daily Herald has cast blame in many corners for the country's cash shortage, its recent attacks on the Reserve Bank (RBZ) have been frenzied and unrelenting. This makes little sense, but then in today's Zimbabwe, what does? End Summary.

Latest Villain?

2. At times, the Herald has fingered private banks, cross-border traders, the opposition party and Asian merchants. However, the newspaper's denunciations of the Reserve Bank have now reached fever-pitch. Wednesday's Herald began with the article, "RBZ bosses told to quit," carrying charges from various ruling ZANU-PF legislators. Only due to RBZ's asset mismanagement, the article charged, does Zimbabwe have a forex shortage. A follow-up editorial in Thursday's Herald called again for top RBZ managers to resign. It complained: "... authorities at the central bank just watch with folded arms as if everything is normal ... Indeed, it seems we have a bunch of myopic top RBZ management, which has failed to keep pace with the ever-changing domestic and international markets. ... We expect the current senior management to do the honorable thing of quitting."

Comment

3. By any measure, the Herald's RBZ bashing is bizarre. Neither the Herald nor the RBZ enjoys a modicum of autonomy from President Mugabe and his inner-circle. The Herald is no more an independent newspaper than RBZ is an independent central bank.

4. While it is conceivable there is genuine policy rift within the GOZ, this is hard to fathom. The RBZ so loyally toes the GOZ line that we cannot remember a central bank governor or other high official disagreeing publicly with government policy or pronouncements. (The RBZ has not defended itself against recent allegations.) There are several reasons why the RBZ printed too few banknotes: a) Contrary to common economic sense, the RBZ based inflation projections on the GOZ's insistence last November that 2003 inflation would run 96 percent (it's currently 400 percent); b) Each Z\$500 (US\$.10) banknote, the highest denomination, costs many times more to print than it is worth. The Reserve Bank lacks resources to play this game forever; c) Finally, the RBZ is unable to print larger denominations - the obvious solution - because the GOZ refuses to accept its currency's broad devaluation, a consequence of failed economic policies. If anything, the RBZ's blind adherence to dotty GOZ policies caused Zimbabwe's cash crisis.

Sullivan